NRRI Report Details How Cap-and-Trade Could Impact State Consumer-Protection Policies

NARUC press release (January 16)

WASHINGTON—A new study provides State utility commissioners with critical guidance on how a federal cap-and-trade program could impact their responsibilities to protect consumers, the National Association of Regulatory Utility Commissioners said.

The study, "State Commission Electricity Regulation under a Federal Greenhouse Gas Cap-and-Trade Policy," was authored by Professor Andrew Keeler of the John Glenn School of Public Affairs at the Ohio State University and was funded by the National Regulatory Research Institute, an entity financially supported by NARUC members.

In the analysis, Keeler describes how a cap-and-trade program for reducing carbon emissions would impact State regulators and encourages commissioners to advocate that such a program contain particular characteristics in order to protect consumers from being overly burdened. Many of Keeler's conclusions are supported by NARUC in its November 2007 principles for a federal cap-and-trade program (available online at www.naruc.org).

"This study offers State regulators a blueprint for how a cap-and-trade program will likely impact their roles and responsibilities," said NARUC President Marsha Smith of Idaho. "With our role as the economic regulator closest to retail energy consumers, we must be fully aware and educated as this debate moves forward. This important analysis will help us do just that."

For example, State utility regulators should be most interested in a cap-and-trade program that is applied economy wide and not on the electricity industry only. This is because, Keeler says, an electric-only program will result in higher rates for end-use electricity customers.

"A program that covers higher percentages of [greenhouse gas] emissions will have a larger and more diverse allowance market, and therefore will tend to have less volatile prices and a more liquid allowance market," Keeler said. "This tendency will help the electric industry to plan compliance strategies and to make adjustments for unexpected changes in emissions."

Additionally, Keeler notes that a cap-and-trade system will impact States differently depending on whether their utility sector is traditionally regulated or reliant on the wholesale market. This is particularly relevant depending on how and to whom emission credits are allocated.

"Commissioners will not be able to influence the rates paid for electricity produced under market pricing when generation owners receive allowances at no cost," Keeler said. "If allowances are instead allocated to [Local Distribution Companies] in their role as entities obligated to physically provide electricity to end use loads, commissions will be able to treat symmetrically electricity produced under embedded cost ratemaking and market pricing. Commissions will need to decide the balance between lower rates and efficient conservation incentives when regulating LDC use of no-cost allowances.”